

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OMB-01 OPIC-03

CIAE-00 INR-07 NSAE-00 AID-05 /033 W

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FM AMEMBASSY MANILA

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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: NA

TAGS: EINV, EFIN, RP

SUBJECT: FURTHER DEVELOPMENT IN PROPOSED LIMITATION OF FOREIGN
COMPANY CREDIT

REF: MANILA 4563

SUMMARY: THE AMERICAN CHAMBER HAS FORMALLY RESPONDED TO THE PROPOSED CENTRAL BANK CIRCULAR WHICH WOULD LIMIT FOREIGN COMPANY CREDIT. THE AMCHAM RESPONSE EMPHASIZED THE OVERLY BROAD DEFINITION OF DEBT, FAILURE TO DISTINGUISH PESO AND FOREIGN CURRENCY DEBT, AND FAILURE TO CONSIDER HISTORICAL DEBT/EQUITY RATIOS. FOREIGN COMPANY POSITIONS ARE APPARENTLY RECEIVING ATTENTION, AND FURTHER PUBLIC HEARING WILL BE SCHEDULED, AT A DATE TO BE DETERMINED. SOME FORM OF REGULATION APPEARS LIKELY, BUT PROBABLY NOT AS ONEROUS AS ORIGINALLY FRAMED. END SUMMARY.

2. MANILA NEWSPAPERS HAVE REPORTED THAT CENTRAL BANK GOVERNOR LICAROS HAS DIRECTED THAT THE COMMITTEE ON FOREIGN COMPANY CREDIT CONDUCT ANOTHER PUBLIC HEARING ON THE SUBJECT: NO DATE HAS BEEN ANNOUNCED.

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3. INTEREST IN THIS ISSUE IS HIGH AMONG FOREIGN BUSINESSMENT HERE, AND IS ABSORBING THE ATTENTION OF THE AMCHAM. MUCH OF THE COMMENT EMBASSY OFFICERS ARE ENCOUNTERING FOLLOW ALONG THE LINES OF AN EIGHT PAGE AMCHAM POSITION PAPER WHICH HAS BEEN SUBMITTED TO THE COMMITTEE. OAQFNPY POUCHED TO EA/PHL). THIS PAPER COMMENTS ON

THE OVERLY SIMPLISTIC DEFINITION OF "DEBT" IN THE DRAFT CIRCULAR, WHICH DEFINITION INCLUDES LOCAL TRADE CREDITS, INTER-COMPANY ACCOUNTS, AND RESERVE ACCOUNTS. THE DRAFT ALSO DRAWS ON DISTINCTION BETWEEN FOREIGN CURRENCY DEBT AND PESO DEBT, WHICH IN THE OPINION OF THE AMCHAM SEEMS TO DIVORCE IT FROM THE ORIGINAL INTENT OF IMPROVING ACCESS TO PESO CREDIT BY LOCAL BORROWERS. THE AMCHAM PAPER ALSO NOTES THAT THE PROPOSED CIRCULAR DOES NOT TAKE INTO CONSIDERATION HISTORICAL DEBT EQUITY RATIOS, WHICH IT IS CLAIMED RUN ABOVE 80/20 FOR SOME SECTORS.

4. AMCHAM MEMBERS HAVE TOLD US THAT THEY ARE ENCOURAGED BY THE COMMITTEE'S APPARENT INTEREST IN THEIR VIEWS. CB DEPUTY GOVERNOR JAIME LAYA, WHO IS ALSO CO-CHAIRMAN OF THE COMMITTEE, TOLD EMBASSY OFFICER THAT THE AMCHAM PAPER WAS WELL-DONE AND WELL-RECEIVED, AND THAT THE COMMITTEE'S PACE IS RELATIVELY RELAXED. THE AMCHAM HAS BEEN PROVIDING LAYA WITH FURTHER SURVEY INFORMATION ON THE PRESENT DEBT EQUITY SITUATION IN AN ATTEMPT TO DISABUSE HIM ON HIS IMPRESSION THAT THE PROPOSED REGULATION WOULD HAVE LITTLE EFFECT ON FOREIGN COMPANIES.

5. LAYA IS PROBABLY THE COMMITTEE MEMBER MOST SYMPATHETIC TO THE FOREIGN COMPANIES, WITH COMMITTEE CHAIRMAN TORDESILLAS THOUGHT TO REFLECT THE MORE "NATIONALISTIC" LINE FAVORED BY SECRETARY OF INDUSTRY PATERNO AND SECRETARY OF PLANNING SICAT. LIMITED OFFICIAL USE

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6. INTERESTINGLY, THERE ARE SOME IN THE AMERICAN BUSINESS COMMUNITY HERE WHO FIND THE ATTEMPT TO REGULATE FOREIGN ACCESS TO LOCA CREDIT BOTH UNDERSTANDABLE AND JUSTIFIABLE. CASES OF ABUSE -- LEVERAGING MINIMUM EQUITY INTO EXTENSIVE LOCAL BORROWING -- ARE WELL-KNOWN HERE, AS IS THE CHRONIC HIGH COST OF PESO CREDIT, ESPECIALLY TO SMALLER, HIGH-RISK BORROWERS. AS A PRACTICAL MATTER, THERE ARE ALSO SOME FOREIGN COMPANIES HERE WHICH WOULD NOT HAVE GREAT DIFFICULT IN MEETING THE DEBT/EQUITY REQUIREMENTS CONTEMPLATED.

7. THERE IS NOT UNANIMITY OF OPINION ON THE IMPLICATIONS OF REGULATIONS ON THE FOREIGN INVESTMENT CLIMATE. SOME U.S. BANKERS SEE FINANCIAL "CHAOS" AND WIDESPREAD DISINVESTMENT, WHILE OTHERS VIEW THE PROSPECT WITH EQUANIMITY, SUGGESTING THAT THIS WILL BE A SECONDARY FACTOR IN

INVESTMENT DECISIONS. THE MAJORITY OPINION,
HOWEVER, IS THAT REGULATION, ESPECIALLY IN ITS
PRESENT FORM, WOULD BE A NEGATIVE FACTOR IN
THE INVESTMENT CLIMATE.

8. COMMENT: THE PREFERRED RESOLUTION OF THIS ISSUE
AMONG MOST FOREIGN FIRMS -- THAT IS SIMPLY FADE
AWAY -- GROWS MORE REMOTE. ON THE OTHER HAND,
CHANCES SEEM GOOD THAT THE REGULATION WILL BE
MODIFIED IN WAYS TO MAKE IT MORE PALATABLE
TO FOREIGN INVESTORS.
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Disposition Date: 22 May 2009
Disposition Event:
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